

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

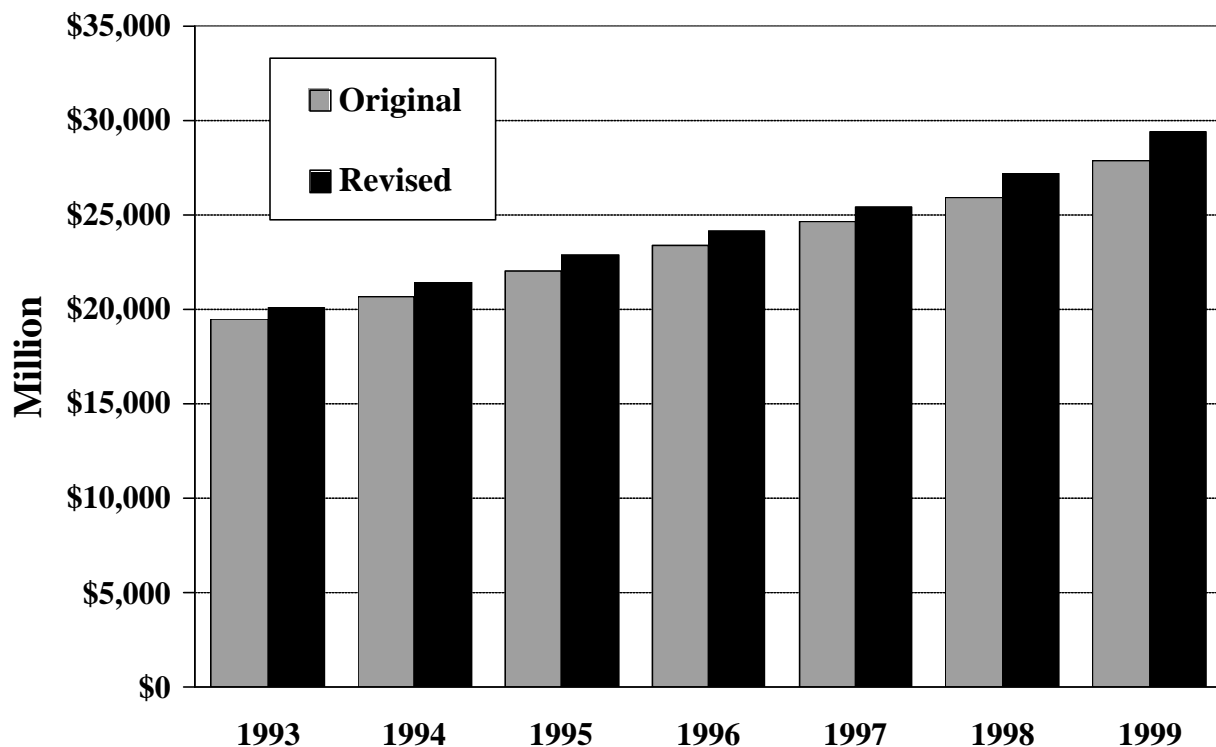
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- Forecast 2000-2003
- A Wealth Effect
- Alternative Forecasts

## Idaho Nominal Personal Income Original versus Revised



Source: United States Department of Commerce.

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**IDAHO  
ECONOMIC  
FORECAST  
2000 - 2003**

State of Idaho  
DIRK KEMPTHORNE  
Governor

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## PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop- and-start economic performance, the 1990s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

The State's traditional industries - such as lumber and wood products, food processing, and mining - have become more competitive. The high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the first decade of the new millennium.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, more Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm – most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the June 2000 Standard and Poor's DRI baseline forecast of the U.S. economy. The April 2000 *Idaho Economic Forecast* is based on the March 2000 DRI national forecast.

As the cover chart shows, Idaho personal income has undergone significant revisions since the April 2000 forecast was released. For example, 1998 Idaho nominal personal income is now estimated at \$27.2 billion, which is \$1.3 billion more than had been reported previously. A large portion of this increase reflects the inclusion of government retirement funds in personal income. In addition, farm proprietors' income was revised upwards.

## FEATURE

American consumers have been on quite a spending spree for the last few years. Economists have examined many factors in an attempt to explain why consumers have been so willing to live beyond their means. One reason cited for this spendthrift behavior is the so-called "wealth effect." In simple terms, consumers have seen the value of both their financial and non-financial assets soar recently, which has them feeling richer. The richer they feel, the more consumers spend. This *Forecast's* feature article attempts to measure the impact of the wealth effect. This article is reprinted from the Federal Reserve Bank of Atlanta's second quarter 2000 *EconSouth* magazine.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1984 to 2003 and for every quarter from 1997 through 2002. The solution of the Idaho Economic Model for this forecast begins with the first quarter of 2000.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

## CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the first quarter of 2000. The estimates for all the months of 1999 have been benchmarked. The monthly estimates for the first quarter of 2000 are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

In April 2000, it was reported that nonfarm employment would grow at a 4.4% annual pace in the fourth quarter of 1999 and 3.8% in the first quarter of this year. The most recent release of Idaho Department of



Labor data show that fourth quarter job growth was 3.1%, which was slightly slower than had been estimated previously. However, the first quarter data show that employment expanded at a 5.8% annual pace, which was well above the previous estimate of 3.8%. The net result of these changes is the current estimate of Idaho nonfarm employment in the first quarter of 2000 is about 1,000 higher than had been forecast in April 2000.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the fourth quarter of 1999. The BEA is scheduled to release its next round of Idaho personal income estimates in late July 2000. These estimates will run through the first quarter of 2000.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).

## SUBSCRIPTIONS

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